



# Dynamic Asset Pricing Theory, Third Edition.

By Darrell Duffie

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**Dynamic Asset Pricing Theory, Third Edition.** By Darrell Duffie

This is a thoroughly updated edition of *Dynamic Asset Pricing Theory*, the standard text for doctoral students and researchers on the theory of asset pricing and portfolio selection in multiperiod settings under uncertainty. The asset pricing results are based on the three increasingly restrictive assumptions: absence of arbitrage, single-agent optimality, and equilibrium. These results are unified with two key concepts, state prices and martingales. Technicalities are given relatively little emphasis, so as to draw connections between these concepts and to make plain the similarities between discrete and continuous-time models.

Readers will be particularly intrigued by this latest edition's most significant new feature: a chapter on corporate securities that offers alternative approaches to the valuation of corporate debt. Also, while much of the continuous-time portion of the theory is based on Brownian motion, this third edition introduces jumps--for example, those associated with Poisson arrivals--in order to accommodate surprise events such as bond defaults. Applications include term-structure models, derivative valuation, and hedging methods. Numerical methods covered include Monte Carlo simulation and finite-difference solutions for partial differential equations. Each chapter provides extensive problem exercises and notes to the literature. A system of appendixes reviews the necessary mathematical concepts. And references have been updated throughout. With this new edition, *Dynamic Asset Pricing Theory* remains at the head of the field.

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## **Editorial Review**

### Review

"This is an important addition to the set of text/reference books on asset pricing theory. It will, if it has not already, become the standard text for the second Ph.D. course in security markets. Its treatment of contingent claim valuation, in particular, is unrivaled in its breadth and coherence."--*Journal of Economic Literature*

### About the Author

J. Darrell Duffie is the James Irvin Miller Professor of Finance at the Graduate School of Business, Stanford University. He teaches and does research in the area of asset valuation, risk management, credit risk modeling, and fixed-income and equity markets. His other books include Security Markets, Stochastic Models, and Futures Markets.

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